

Message Text

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ACTION EB-07

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E.O. 11652: N/A
TAGS: EAGR, ETRD, CO
SUBJECT: COFFEE PRICES

REF: STATE 302391

1. COLOMBIA EXPORTS ALL OF ITS EXCELSO QUALITY COFFEE SO THAT THE INTERNAL RETAIL PRICE IS NOT COMPARABLE AS THE COFFEE SOLD IN THE INTERNAL MARKET IS OF MUCH LOWER QUALITY. EXPORT QUALITY COFFEE CAN BE PURCHASED IN SOME TOURIST SHOPS HOWEVER, AT \$1.67 A LB. EXPORT QUALITY SOLUBLE COFFEE RETAILS AT \$2.06 A LB. REGULAR GROUND NON-EXPORT QUALITY COFFEE SELLS AT 43 CENTS A POUND.

2. THERE IS AN 18 PERCENT ADVALORUM EXPORT TAX ON COFFEE EXPORTS WHICH IS A REVENUE GENERATING TAX, NOT AN EXPORT CONTROL TAX. IN ADDITION, THERE IS A COFFEE RETENTION TAX THAT CAN BE PAID 20 PERCENT IN PERGAMINO COFFEE AND THE REMAINDER IN CASH. FOR EACH 100 LBS EXPORTED, THE EXPORTER MUST GIVE ANOTHER 85 LBS OF COFFEE OR ITS MONEY EQUIVALENT TO THE FEDERATION AS THE RETENTION TAX, IN OTHER WORDS THE RETENTION TAX IS 46 PERCENT. EXPORTERS
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MUST REMIT \$1.59 FOR EACH POUND OF COFFEE EXPORTED, BUT THIS IS NOT A MINIMUM EXPORT PRICE, IT IS RATHER AN EXCHANGE CONTROL WHICH IS ADJUSTED IN RESPONSE TO MOVEMENTS IN THE NEW YORK PRICE.

3. COFFEE PRODUCERS CURRENTLY RECEIVE 71 CENTS PER POUND

FOR PERGAMINO COFFEE. THE EXPORTER MUST BUY 100 LBS OF PERGAMINO TO EXPORT 80 LBS OF EXCELSO SO THAT IN REALITY HE PAYS 89 CENTS PER POUND.

4. THERE ARE ONGOING AND WELL RUN PROGRAMS TO INCREASE COFFEE PRODUCTION THROUGH TECHNICAL ASSISTANCE, CREDIT, AND FERTILIZER SUBSIDIES.

5. IT MUST BE POINTED OUT THAT NONE OF THE COLOMBIAN POLICIES OR TAXES ARE DESIGNED TO RESTRICT COFFEE EXPORTS OR TO INCREASE THE INTERNATIONAL COFFEE PRICE. COLOMBIA'S AIM IS TO EXPORT ALL OF ITS EXCELSO QUALITY COFFEE, BUT TO CONTINUE THEIR QUALITY CONTROL PROGRAM SO THAT COLOMBIAN COFFEE WILL RETAIN ITS PREMIUM ON THE INTERNATIONAL MARKETS. INDEED, THERE IS PRESENTLY A SCARCITY OF COFFEE IN THE COLOMBIAN MARKET BECAUSE OF THE HIGH LEVEL OF EXPORTS - LEGAL AND CONTRABAND. THE INTERNAL PRICES, THE RETENTION TAXES, AND THE REMITTANCE REQUIREMENT ARE ALL DICTATED BY THE NEW YORK COFFEE PRICE. COLOMBIA MERELY ADJUSTS POLICIES ACCORDING TO THE NEW YORK PRICE WITH ITS POLICY EYE ON A NUMBER OF VARIABLES SUCH AS INTERNAL PRICE STABILIZATION AND MONETARY MANAGEMENT. THE PRESENT HIGH WORLD PRICE IS CONSIDERED TOO HIGH BY THE COLOMBIAN COFFEE FEDERATION AND THEY WOULD LIKE VERY MUCH FOR THE PRICE TO COME DOWN. BUT EVEN AS THE SECOND LARGEST

PRODUCER, COLOMBIA DOES NOT HAVE THE MARKET POWER TO SIGNIFICANTLY AFFECT PRICES IN THE NEW YORK COFFEE MARKET EITHER UPWARDS OR DOWNWARDS. HERE, THE RECENT LIMITED OFFICIAL USE

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UPTURN IN THE PRICES IS SEEN AS A REACTION TO THE FEAR OF LA ROYA IN CENTRAL AMERICA. SPECULATION IN THE NEW YORK FUTURES MARKET WITH LA ROYA HANGING OVER CENTRAL AMERICAN AND EVEN COLOMBIAN COFFEE OUTLOOK IS, AND PROBABLY WILL CONTINUE TO BE, KEEPING UPWARD PRESSURE ON PRICES.
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